

FDIC State Profile

Fall 2005

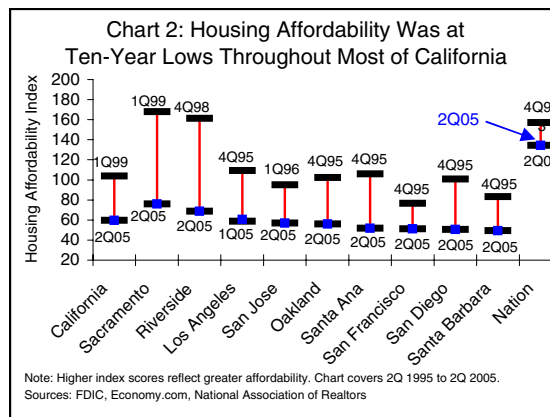
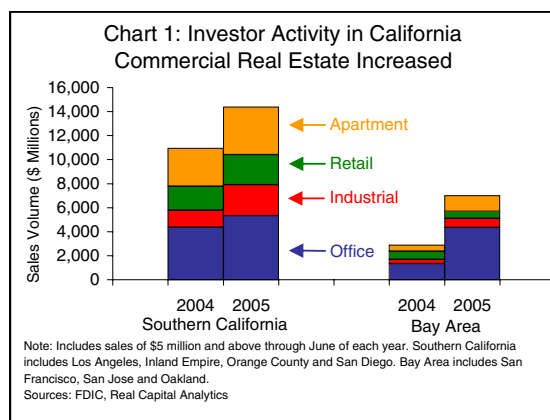
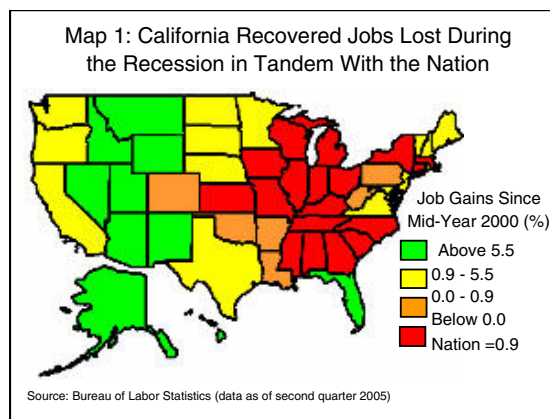
California

California job growth continued to strengthen and the outlook improved.

- Although the state lost more than 350,000 jobs during and after the 2001 recession, strength in Southern and central California boosted employment above the pre-recession peak in second quarter 2005 (see Map 1). Construction-related job growth was instrumental in the recovery, directly generating nearly 60 percent of net new jobs. Financial services and retail sectors also fed growth.
- Despite additional job losses in **San Jose**, forecasts indicate continued progress in the California job growth recovery through the remainder of 2005 and 2006.¹
- Recent hurricanes may have indirect implications for the state economy. Post hurricane reconstruction in the Southeast may create labor and construction supply pressures. Moreover, energy price increases may have adverse effects on consumer demand and tourism.

California employment gains drove improving commercial real estate (CRE) conditions.

- Investor demand for California CRE continued to accelerate through mid-2005, particularly for office and apartment properties (see Chart 1).² The volume of CRE property sales in the Bay Area alone increased more than 140 percent, 4.5 times the increase in Southern California and more than three times the nation.^{3,4}
- Office vacancies and rents improved in most markets through the first half of 2005. However, rents continued to languish in **Oakland** and **Sacramento**.⁵ Industrial availability rates also improved in most markets in first half 2005, but rental rates fell in San Jose, **Orange County**, **Ventura**, and **Sacramento**.⁶



¹Forecast source is Economy.com.

²According to Real Capital Analytics.

³Ibid.

⁴The Bay Area includes San Francisco, San Jose and Oakland; Southern California includes Los Angeles, Inland Empire, Orange County, and San Diego.

⁵According to Torto Wheaton Research.

⁶Ibid.

State Profile

- CRE loans continued to climb at California institutions. At mid-2005, California ranked third in the nation with a median CRE to Tier 1 capital ratio of 433 percent.

House price growth slowed in some markets.

- Mid-year housing affordability declined to its lowest level in a decade throughout the state despite broad-based slowing in home price appreciation (see Chart 2). Per the National Association of Realtors, annual price growth plummeted from more than 30 percent one-year ago to less than 9 percent in **Los Angeles**, Orange County, and **San Diego**. Similarly, the Office of Federal Housing Enterprise Oversight ranked seven California markets among the twenty fastest appreciating areas during the second quarter, down from fourteen in first quarter 2005.
- In first half 2005, residential mortgage activity in California was characterized by the use of innovative mortgage products, even among non-prime borrowers. For example, innovative (option ARM and interest only) mortgages accounted for nearly 62 percent of subprime and Alt-A mortgages securitized in California compared with 42 percent for the nation.⁷

Bankruptcy filings are on the radar.

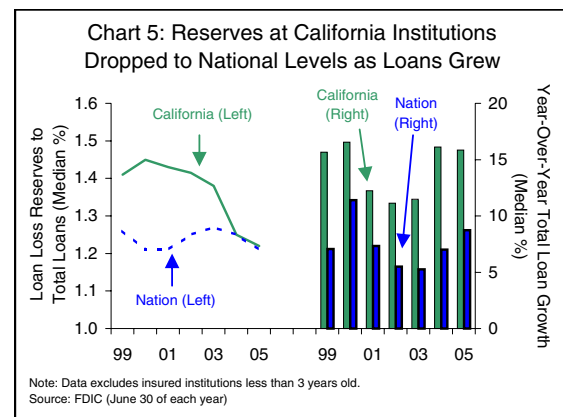
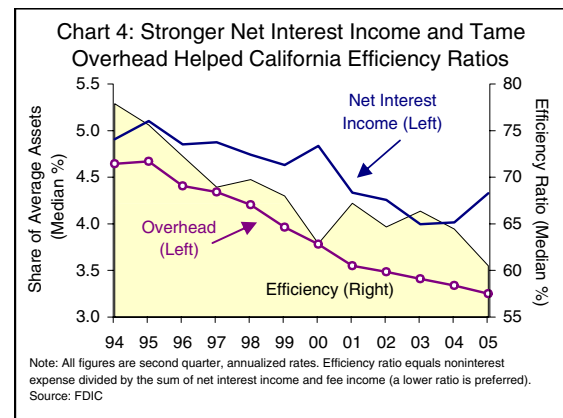
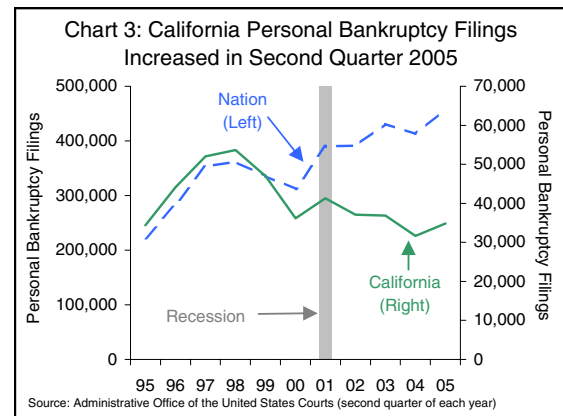
- Second quarter personal bankruptcy filings in California spiked 10 percent year-over-year because of pending bankruptcy law changes. However, filings remained lower than the nation on a per capita basis and below pre-recession levels (see Chart 3).
- Past-due consumer loans at California institutions were at historic lows. However, should interest rates rise or hurricane-related energy price hikes persist, institutions could experience an uptick in consumer loan defaults.

Net interest margins (NIMs) and profits rebounded.

- Widening margins and lower overhead burdens benefited second quarter pre-tax earnings and efficiency ratios among California institutions.⁸ Profits increased despite rising provision expenses and lower noninterest income.
- Efficiency ratios (the share of net operating revenues absorbed by overhead expenses) ranked tenth best on a median basis and improved year-over-year. High and expanding NIMs and low and declining overhead ratios led the trend (see Chart 4).

California institutions reported strong credit quality.

- Although second quarter 2005 past due loans edged up in the Bay Area, California insured institutions reported one of the lowest past-due loan levels in the nation.
- Loan growth among California institutions ranked sixth nationwide; relatively higher-risk construction and development loans, home equity lines of credit, and commercial and industrial loans led the growth.
- Although loan loss reserves relative to total loans mirrored national levels, the median neared historical lows (see Chart 5).



⁷Based on LoanPerformance data.

⁸The efficiency ratio equals noninterest expense (overhead) divided by the sum of net interest income and noninterest income.

California at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.7%	1.7%	0.7%	1.0%	-0.5%
Manufacturing (10%)	0.2%	0.5%	-1.4%	-1.0%	-5.5%
Other (non-manufacturing) Goods-Producing (6%)	6.0%	6.3%	6.6%	6.4%	2.7%
Private Service-Producing (67%)	1.9%	2.0%	1.1%	1.5%	0.3%
Government (16%)	0.1%	-0.2%	-1.6%	-1.5%	-0.9%
Unemployment Rate (% of labor force)	5.4	5.7	6.3	6.2	6.8

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.5%	6.4%	8.1%	6.6%	3.2%
Single-Family Home Permits	2.4%	-6.7%	13.5%	8.8%	15.4%
Multifamily Building Permits	-9.7%	16.0%	11.4%	15.3%	34.7%
Existing Home Sales	0.9%	-2.0%	3.3%	5.6%	2.2%
Home Price Index	25.2%	26.3%	20.3%	22.3%	12.3%
Bankruptcy Filings per 1000 people (quarterly annualized level)	3.95	3.28	3.64	3.44	4.07

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	299	294	300	295	318
Total Assets (in millions)	917,814	892,066	769,938	838,475	962,977
New Institutions (# < 3 years)	48	43	42	39	43
Subchapter S Institutions	25	25	24	23	22

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.33	0.48	0.40	0.32	0.59
ALLL/Total Loans (median %)	1.21	1.23	1.24	1.22	1.28
ALLL/Noncurrent Loans (median multiple)	4.39	3.37	3.19	3.13	3.21
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.02

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.61	9.53	9.57	9.57	9.12
Return on Assets (median %)	1.25	1.14	1.10	1.11	1.07
Pretax Return on Assets (median %)	1.96	1.83	1.72	1.69	1.60
Net Interest Margin (median %)	4.71	4.60	4.38	4.37	4.36
Yield on Earning Assets (median %)	6.24	5.88	5.35	5.49	5.61
Cost of Funding Earning Assets (median %)	1.49	1.28	0.97	1.03	1.18
Provisions to Avg. Assets (median %)	0.14	0.13	0.10	0.14	0.15
Noninterest Income to Avg. Assets (median %)	0.49	0.52	0.63	0.57	0.66
Overhead to Avg. Assets (median %)	3.25	3.24	3.34	3.33	3.36

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	70.0	69.6	68.4	70.0	67.4
Noncore Funding to Assets (median %)	22.1	21.0	19.9	20.7	20.4
Long-term Assets to Assets (median %, call filers)	11.6	12.5	17.0	14.1	17.3
Brokered Deposits (number of institutions)	115	109	99	106	101
Brokered Deposits to Assets (median % for those above)	3.3	3.2	3.1	3.1	3.3

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	96.8	96.4	89.0	96.8	96.9
Commercial Real Estate	432.9	446.9	442.9	435.0	434.6
Construction & Development	67.4	67.3	62.9	68.3	55.1
Multifamily Residential Real Estate	16.7	18.7	19.2	20.6	15.2
Nonresidential Real Estate	255.8	267.5	281.3	266.8	269.2
Residential Real Estate	52.2	52.2	50.4	52.2	52.6
Consumer	6.0	5.8	6.8	6.3	8.5
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Los Angeles-Long Beach-Santa Ana, CA	153	246,702	< \$250 million	157 (52.5%)
San Francisco-Oakland-Fremont, CA	83	154,040	\$250 million to \$1 billion	76 (25.4%)
San Jose-Sunnyvale-Santa Clara, CA	48	47,229	\$1 billion to \$10 billion	55 (18.4%)
San Diego-Carlsbad-San Marcos, CA	67	43,813	> \$10 billion	11 (3.7%)
Stockton, CA	24	36,847		